

Message Text

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TAGS: EGEN EALR ET

SUBJECT: ETHIOPIA'S CURRENT ECONOMIC SITUATION

REF: A. ADDIS 1899, B. ADDIS 5990, C. ADDIS 6608, D. ADDIS 8303

1. SUMMARY- IN GENERAL, PRODUCTION OF AGRICULTURAL CROPS WAS VERY GOOD DURING THE 1975/76 SEASON. WHEAT OUTPUT, HOWEVER, WAS OFF SUBSTANTIALLY WHILE COTTON AND SUGAR PRODUCTION WAS OFF marginally. AVAILABILITIES OF FOODGRAIN FOR URBAN AREAS ARE JUST BARELY MEETING DEMAND. THE OUTLOOK FOR THE 1976/77 SEASON APPEARS BETTER THAN LAST YEAR AT THIS TIME ALTHOUGH IT IS FAR TOO EARLY IN THE SEASON FOR A DEFINITIVE ASSESSMENT. MANUFACTURING OUTPUT MAY HAVE DECLINED marginally DURING THE PAST FEW MONTHS OWING TO INCREASED LABOR PROBLEMS. CONSTRUCTION ACTIVITY, WHILE UP SLIGHTLY BECAUSE OF INCREASED GOVERNMENT-SPONSORED PROJECTS, IS STILL WELL BELOW TRADITIONAL LEVELS.

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UNEMPLOYMENT REMAINS A SERIOUS PROBLEM, RECENTLY AGGRAVATED

BY RETURNING STUDENTS FROM THE PROGRESS THROUGH DEVELOPMENT CAMPAIGN WHO NOW NEED JOBS. RETAIL TRADE IS HOLDING UP WELL. INFLATION IS SERIOUS, RUNNING AT A 30 PERCENT ANNUAL RATE, WITH THE COST OF FOOD LEADING THE WAY. TRANSPORTATION IS LESS OF A BOTTLENECK THAN A FEW MONTHS AGO AS REQUIREMENTS TO MOVE COFFEE AND OTHER EXPORTS ARE DECLINING SEASONALLY. THE BANKING SECTOR IS IN BETTER SHAPE AS DESPOSITS CONTINUE TO GROW GRADUALLY BUT STEADILY. NEW "SOCIALIST" GUIDELINES HAVE BEEN ISSUED REGARDING CREDIT MANAGEMENT; WHILE A ROLE FOR THE PRIVATE SECTOR IS RECOGNIZED, IT IS UNCLEAR WHAT THE FINAL IMPACT OF THESE GUIDELINES ON THAT SECTOR WILL BE. INVESTMENT IS AT LOW LEVELS WITH THE GOVERNMENT BEING THE ONLY SOURCE AT THE MOMENT. MORE GOVERNMENT-SPONSORED PROJECTS IN MANUFACTURING AND CONSTRUCTION ARE REPORTEDLY TO BE ANNOUNCED SOON. THE XTERNAL SECTOR CONTINUES TO TURN IN A STRONG PERFORMANCE, BASED MAINLY ON HIGH EARNINGS FROM COFFEE EXPORTS. CURRENTLY NET FOREIGN EXCHANGE RESERVES STAND AT ROUGHLY ETH\$640-650 MILLION, UP ETH\$20-30 MILLION FROM THE FIRST OF THE YEAR. COMMENT: ETHIOPIA'S ECONOMIC PROBLEMS -- SPORATIC URBAN SHORTAGE OF CEREALS, INFLATION AND LACK OF INVESTMENT -- ARE SERIOUS, ESPECIALLY THE FOOD GRAIN SITUATION IN URBAN CENTERS. ON THE OTHER HAND, ECONOMIC ACTIVITY IS OTHERWISE CARRYING ON MUCH AS BEFORE. IF WEATHER CONDITIONS REMAIN FAVORABLE, THE CURRENT RATE OF ECONOMIC ACTIVITY IN URBAN AREAS IS MAINTAINED, AND IF THE GOVERNMENT OVERCOMES THE URBAN SHORTAGE OF CEREALS, ANTI-GOVERNMENT ACTIONS BASED ON ECONOMIC GRIEVANCES ARE UNLIKELY.

2. AGRICULTURE

A. PRODUCTION OF CEREALS -- WITH THE SERIOUS EXCEPTION OF WHEAT -- OIL SEEDS (EXCEPT SESAME) AND PULSES (EXCEPT HARICOT BEANS) WERE UNUSUALLY GOOD FOR THE 1975/76 SEASON. DISTRIBUTION AND MARKETING CONTINUE TO BE MAJOR PROBLEMS AND ARE RECEIVING THE ON-GOING ATTENTION OF THE EPMG WHICH IS EMPLOYING A VARIETY OF MEASURES -- FROM IMPORTING WHEAT TO TAKING STERN ACTION AGAINST MERCHANTS WHO WERE ALLEGEDLY HOARDING -- IN AN ATTEMPT TO INSURE ADEQUATE SUPPLIES OF FOODGRAINS AND OTHER AGRICULTURAL PRODUCTS TO URBAN AREAS AT REASONABLE PRICES. THE SUCCESS OF THESE EFFORTS LIMITED OFFICIAL USE

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IS YET TO BE SEEN AND THE GENERAL FOOD SITUATION IN URBAN AREAS IS LIKELY TO REMAIN PRECARIOUS UNTIL THE NEXT HARVEST BEGINS IN NOV/DEC. AS FOR PRODUCTION OF EXPORT CROPS, COFFEE OUTPUT WAS ABOUT AS PREDICTED WHEREAS COTTON AND SUGAR BOTH FELL SOMEWHAT SHORT OF EXPECTATIONS; COTTON PRODUCTION WAS OFF BY PERHAPS 5-10 PERCENT MAINLY DUE TO LOWER YIELDS PER HECTARE AT TENDAHO PLANTATION AND NO PLANTING BY THE AFAR TRIBE IN THE LOWER AWASH AND SOME LABOR AND SECURITY PROBLEMS AT THE BARATTOLO PLANTATION AT

TESENEY IN ERITREA WHILE SUGAR PRODUCTION WAS ABOUT 15,000 TONS SHORT (120,000 TONS INSTEAD OF 135,000 TONS) OWING TO LABOR PROBLEMS AND UNEXPECTED DIFFICULTIES WITH EXPANSION OF REFINING CAPACITY

B. THE OUTLOOK FOR THIS (1976/77) CROP YEAR IS FAVORABLE ALTHOUGH IT IS TOO EARLY IN THE SEASON FOR A DEFINITIVE ASSESSMENT. THUS FAR, WEATHER CONDITIONS HAVE BEEN VERY GOOD AND LAND PREPARATION FOR CEREALS, OIL SEEDS, PULSES, ETC., IN THE SOUTHERN HALF OF THE COUNTRY IS AHEAD OF LAST YEAR. NO RELIABLE INFORMATION IS AVAILABLE REGARDING THE NORTHERN HALF BUT AS THERE ARE FEWER REPORTS OF CIVIL UNREST IN THAT AREA OF THE COUNTRY -- EXCEPT FOR ERITREA, TIGRE, AND POSSIBLY GOJJAM -- THAN LAST YEAR IT IS LIKELY THAT AGRICULTURAL ACTIVITY IS ABOUT NORMAL. THE OUTLOOK FOR COFFEE PRODUCTION IS SLIGHTLY BETTER THAN LAST YEAR. WEATHER CONDITIONS HAVE BEEN EXCELLENT, ESPECIALLY IN HARRAGE PROVINCE, BUT UNFORTUNATELY SO HAVE CONDITIONS FOR COFFEE BERRY DISEASE WHICH IS EXPECTED TO MAKE GREATER INROADS THAN LAST YEAR. SUGAR OUTPUT SHOULD BE AT TRADITIONAL LEVELS UNLESS MAJOR LABOR PROBLEMS DEVELOP. COTTON PRODUCTION WILL DEPEND MAINLY ON SECURITY CONDITIONS IN THE LOWER AWASH VALLEY AND AROUND TESENEY; COTTON OUTPUT IN OTHER AREAS SHOULD BE ABOUT THE SAME AS THIS YEAR. SESAME PRODUCTION WILL BE VERY LOW OWING TO SECURITY CONDITIONS IN THE SETIT HUMANA AREA, THE ONLY MAJOR PRODUCING REGION, AND HARICOT BEAN PLANTINGS WILL ALSO BE LOW AS GOVERNMENT-OWNED COMMERCIAL FARMS, PREVIOUSLY THE MAJOR GROWERS OF HARICOTS, WILL PROBABLY CONCENTRATE ON CEREALS.

3. MANUFACTURING, CONSTRUCTION AND EMPLOYMENT (EXCLUDING ERITREA)

MANUFACTURING OUTPUT DURING THE PAST FEW MONTHS HAS PROBABLY DECLINED SLIGHTLY AS LABOR UNREST HAS INCREASED AND SOME LIMITED OFFICIAL USE

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PRODUCTION HAS BEEN LOST OWING TO THE TWO HOURS PER WEEK DEVOTED TO POLITICAL MEETINGS WHICH THE GOVERNMENT NOW REQUIRES. WHILE CONSTRUCTION ACTIVITY HAS PICKED UP marginally OWING TO AN

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INCREASE IN GOVERNMENT-SPONSORED HOUSING AND OFFICE/APARTMENT BUILDING PROJECTS, PRIVATE CONSTRUCTION IS STILL ALMOST NIL. ACCORDING TO BOTH GOVERNMENT AND PRIVATE SECTOR SOURCES, THE EPMG IS PLANNING NEW INVESTMENTS IN INDUSTRIAL PROJECTS AND CONSTRUCTION (BOTH OFFICE BUILDINGS AND HOUSING) MOST OF WHICH WILL BE PUT OUT TO TENDER OVER THE NEXT FEW MONTHS. IF THESE MATERIALIZE, IMPROVEMENT IN CONSTRUCTION INDUSTRY EMPLOYMENT AT THE CONCLUSION OF THE RAINY SEASON (SEPT) WILL OCCUR. THIS IS, OF COURSE, OF CONSIDERABLE IMPORTANCE OWING TO CONTINUING HIGH LEVELS OF UNEMPLOYMENT IN THE CONSTRUCTION INDUSTRY, ESTIMATED BY SOME SOURCES AT 25,000 TO 30,000. THE UNEMPLOYMENT PICTURE IN GENERAL HAS WORSENED SOMEWHAT WITH THE RETURN OF STUDENTS FROM THE NATIONAL PROGRESS THROUGH COOPERATION CAMPAIGN. THE GOVERNMENT PLANS TO PROVIDE PUBLIC WORKS EMPLOYMENT FOR THE MOST NEEDY 2,000 OR 3,000 INDIVIDUALS IN THIS GROUP. THERE HAVE ALSO BEEN RUMORS THAT THE EPMG WILL SHARPLY INCREASE RETIREMENT OF CIVIL SERVANTS TO MAKE ROOM FOR THE UNEMPLOYED BUT THIS HAS BEEN LIMITED OFFICIAL USE

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DENIED BY OFFICIALS IN THE MINISTRY OF LABOR AND SOCIAL WELFARE. AS NOTED ABOVE, THERE IS GREATER WORKER UNREST NOW THAN SIX MONTHS AGO, INCLUDING OCCASIONAL STRIKES. WORKERS ARE UNCLEAR ABOUT THEIR ROLE UNDER THE NEW REGIME; ON THE ONE HAND THEY ARE TOLD THAT THE REVOLUTION IS FOR THEIR BENEFIT AND ON THE OTHER THE EPMG HAS REFUSED TO INCREASE WAGES EXCEPT FOR THE LOWEST-PAID

WORKERS, IN GOVERNMENT-OWNED ENTERPRISES AND HAS GENERALLY SIDED WITH MANAGEMENT IN LABOR/MANAGEMENT DISPUTES. ANOTHER COMPLICATING FACTOR IS TREATMENT OF SEASONAL LABOR UNDER THE NEW LABOR LAW. MANY CASUAL LABORERS NOW EXPECT TO BE PLACED ON A PERMANENT BASIS WHICH MANAGEMENT IS RESISTING. NO CLEAR GUIDELINES HAVE YET EMERGED ON THE ISSUE. PRIVATE EMPLOYERS HAVE BY AND LARGE BEEN ABLE TO AVOID SOME OF THESE DIFFICULTIES BY AGREEING TO MODEST WAGE INCREASES AND OTHER CONCESSIONS WHICH THEY, IN CONTRAST TO MANAGERS OF GOVERNMENT-OWNED CONCERNS, ARE ALLOWED TO DO. MANAGERS OF BOTH GOVERNMENT AND PRIVATE ENTERPRISES HAVE HAD TO SPEND CONSIDERABLE AMOUNTS OF TIME ON THESE PROBLEMS TO THE DETRIMENT OF THE OTHER RESPONSIBILITIES.

4. RETAIL TRADE AND PRICE TRENDS.

A. RETAIL TRADE, ESPECIALLY FOR MAJOR TRADING HOUSES, HAS HELD UP WELL WITH MOST FIRMS REPORTING THAT BUSINESS IS AS GOOD AS EVER. THE GOVERNMENT IS THE MAJOR CUSTOMER AND HAS PROVEN TO BE A RESPONSIBLE ONE, I.E., PAYS CASH OR OTHERWISE MEETS ITS COMMITMENTS. THE PATTERN NOTED IN PREVIOUS REPORTING CONTINUES TO PREVAIL -- GOOD BUSINESS IN CONSUMER GOODS AND SPARE PARTS; A FALL-OFF OF TRUCK PURCHASES (PERHAPS HALF OF PREVIOUS LEVELS, HENCE THE INCREASE IN SPARE PARTS TURNOVER), BUILDING MATERIALS, AND CAPITAL GOODS. SOME SCARCITIES OF BASIC ITEMS SUCH AS SUGAR, SALT, MATCHES, ETC., APPEAR FROM TIME TO TIME BUT ARE NOT MAJOR PROBLEMS.

B. PRICE TRENDS. ACCORDING TO EPEG STATISTICS ETHIOPIA'S RATE OF INFLATION INCREASED SHARPLY DURING THE FIRST HALF OF CY 1976. THE GENERAL INDEX (1963 EQUAL 100) WENT UP 35 POINTS (FROM 186 TO 221) OR 18 PERCENT ; FOR THE YEAR JUNE 1975 TO JUNE 1976 THE INCREASE WAS 50 POINTS, OR 30 PERCENT. DURING THE CORRESPONDING PERIODS THE FOOD INDEX INCREASED BY 30 PERCENT AND 45 PERCENT RESPECTIVELY WHILE THE CEREALS INDEX WENT UP BY 39 PERCENT AND 39 PERCENT -- IN OTHER WORDS ALL OF THE INCREASE LIMITED OFFICIAL USE

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IN PRICE FOR CEREALS OCCURRED DURING THE PAST SIX MONTHS, PRECISELY WHEN PRICES SHOULD HAVE BEEN DECLINING SEASONALLY. THE REASONS FOR THESE SHARP PRICE INCREASES HAVE BEEN ELABORATED ELSEWHERE (REF D); THE POINT TO BE EMPHASIZED IS THAT THE INCREASE IN CEREALS PRICES (EXCEPT FOR WHEAT WHERE A TRUE SUPPLY SHORTAGE EXISTS) ARE RELATED MORE TO CURRENT POLITICAL INSTABILITY THAN TO ECONOMIC FACTORS. ALMOST ALL KNOWLEDGEABLE OBSERVERS CONTINUE TO BELIEVE THAT AMPLE CEREALS STOCKS ARE AVAILABLE IN THE COUNTRYSIDE BUT ARE BEING HELD BY FARMERS MAINLY AS A HEDGE AGAINST AN UNCERTAIN FUTURE. IT ALSO SHOULD BE NOTED THAT FOR THE FIRST TIME THE INTEGRITY OF THE INDEX ITSELF IS SUSPECT. THE LAST REPORT, WHICH COVERS JUNE, SHOWS SOME VERY UNLIKELY REDUCTIONS IN THE COST OF CERTAIN FOOD ITEMS SUCH AS DAIRY PRODUCTS AND MEATS ALTHOUGH IT

DOES SHOW A SHARP MONTHLY INCREASE IN CEREALS PRICES (11 PERCENT). AFTER THE NEXT REPORT IS OUT, IT SHOULD BE POSSIBLE TO FORM A BETTER JUDGMENT ABOUT THIS MATTER.

5. TRANSPORTATION

OWING TO A SEASONAL DECLINE IN TRANSPORT REQUIREMENTS RELATED TO MOVEMENT OF COFFEE, CEREALS, AND OTHER AGRICULTURAL COMMODITIES, THE TRANSPORTATION PICTURE SEEMS TO BE REASONABLY GOOD. THE PORTS OF ASSAB AND DJIBOUTI ARE WORKING AT THEIR USUAL LEVELS AND THE RAILROAD AT ITS USUAL INEFFICIENT LEVEL. MORE IMPORTS ARE BEING ROUTED THROUGH ASSAB AS AVAILABILITY OF TRUCK TRANSPORT TO THAT PORT HAS INCREASED. PETROLEUM PRODUCTS ARE AVAILABLE IN AMPLE QUANTITIES AND THE OIL DISTRIBUTION COMPANIES HAVE BEEN PUSHING FOR THE ELIMINATION OF RATIONING. THUS FAR THE EPMG HAS REFUSED TO FORMALLY LIFT RATIONING BUT CUSTOMERS ARE GENERALLY ABLE TO BUY AS MUCH AS THEY WISH.

6. BANKING AND INVESTMENT

A. BANKING REMAINS ONE OF THE HEALTHIEST ECONOMIC ACTIVITIES IN ETHIOPIA. COMMERCIAL BANKS NOW HAVE EXCESS FUNDS AS DEPOSITS HAVE RISEN GRADUALLY BUT STEADILY OVER THE PAST YEAR WHILE DEMAND FOR LOANS FROM THE PRIVATE SECTOR IS DECLINING AS THE EXPORT SEASON ENDS. THE BANKS HAVE ALSO BEEN REVIEWING THEIR LOAN PORTFOLIOS TO THE PRIVATE SECTOR IN ORDER TO ELIMINATE INAPPROPRIATE USE OF OVERDRAFT FACILITIES, IN MOST CASES FOR NON-WORKING CAPITAL PURPOSES. ANOTHER ASPECT OF THIS EFFORT IS TIGHTER CONTROL OVER LIMITED OFFICIAL USE

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REMITTANCES TO FOREIGN SHAREHOLDERS IN ORDER TO FORCE FIRMS TO INCREASE INTERNALLY GENERATED FUNDS TO FINANCE A GREATER PROPORTION OF THEIR ACTIVITIES. GIVEN THE UNDERSAPITALIZATION OF SOME FIRMS THIS IS NOT AN OBJECTIONABLE PROCEDURE. THE NATIONAL BANK HAS ALSO ISSUED NEW CREDIT GUIDELINES BASED ON THE NEW "SOCIALIST" PHILOSOPHY OF THE GOVERNMENT. BY AND LARGE THESE GUIDELINES SHOULD BE ACCEPTABLE TO THE PRIVATE SECTOR IN THAT A ROLE FOR THAT SECTOR IS CLEARLY RECOGNIZED. THE IMPLEMENTATION OF THE GUIDELINES, HOWEVER, WILL BE THE DETERMINING FACTOR. WITH PRESSURE ON COMMERCIAL BANKS TO PROVIDE CONSIDERABLE AMOUNTS OF CREDIT TO NEWLY ESTABLISHED FARMERS ASSOCIATIONS AND CO-OPERATIVES, THERE MAY EVENTUALLY BE A CREDIT SQUEEZE ON THE PRIVATE SECTOR; IT WILL PROBABLY BE SOME MONTHS, HOWEVER, BEFORE THE EFFECTS OF THESE NEW GUIDELINES CAN BE ADEQUATELY ASSESSED. BANK PROCEDURES, SUCH AS PROCESSING LOAN REQUESTS, HAVE BECOME MUCH MORE CUMBERSOME AND TIME-CONSUMING PARTLY BECAUSE OF THE POLITICAL SITUATION (WHICH IS CAUSING A HIGH DEGREE OF CAUTION AMONG GOVERNMENT EMPLOYEES IN GENERAL) AND PARTLY BECAUSE EXPERIENCED PERSONNEL HAVE BEEN DISCHARGED (MOSTLY EXPATRIATES -- THERE ARE NO EXPATRIATES EMPLOYED BY BANKS NOW) OR TRANSFERRED TO OTHER

POSITIONS. THE MONEY SUPPLY, OWING PRIMARILY TO GOVERNMENT DEFICIT FINANCE, HAS GROWN AT A VERY RAPID RATE DURING THE PAST SIX MONTHS, PROBABLY AROUND 20 PERCENT. GOVERNMENT OBLIGATIONS TO THE NATIONAL BANK (NET) AT THE END OF JUNE 1976 STOOD AT ETH\$415 MILLION COMPARED WITH ETH \$210 MILLION AT THE END OF JUNE 1975, AN INCREASE OF ALMOST 100 PERCENT. AT LEAST SOME OF THESE FUNDS ARE BEING USED TO COVER DEFICITS IN THE OPERATING BUDGET (AS OPPOSED TO THE CAPITAL OR DEVELOPMENT BUDGET) AND THE GOVERNMENT'S FISCAL POLICY IS CLEARLY CONTRIBUTING TO THE CURRENT HIGH RATE OF INFLATION. INCREASES IN FOREIGN EXCHANGE RESERVES (SEE BELOW) HAVE ALSO CONTRIBUTED SOMEWHAT TO MONEY SUPPLY EXPANSION.

B. PRIVATE INVESTMENT IS STILL ALMOST NON-EXISTENT WHILE GOVERNMENT INVESTMENT IN DIRECTLY PRODUCTIVE UNDERTAKINGS

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(I.E., MANUFACTURING) IS ALSO AT A STANDSTILL. AS NOTED ABOVE EPMG OFFICIALS MAINTAIN THAT A NUMBER OF PROJECTS WILL BE ANNOUNCED AND INITIATED IN THE NEXT FEW MONTHS. BASED ON PREVIOUS

GOVERNMENT PERFORMANCE THESE CLAIMS SHOULD BE VIEWED WITH SOME SKEPTICISM BUT PROGRESS IN THIS RESPECT MAY BE FORTHCOMING AS THE GOVERNMENT IS UNDER INCREASING PRESSURE TO DEMONSTRATE THAT IT IS CAPABLE OF NOT ONLY FILLING THE ROLE OF THE PRIVATE SECTOR BUT ALSO DOING A BETTER JOB OF IT FOR THE MASSES. THE MAJOR CONSTRAINTS TO AN ACTIVE GOVERNMENT-SPONSORED INVESTMENT PROGRAM ARE SHORTAGES OF LOCAL RESOURCES AND LACK OF WILLINGNESS BY CIVIL SERVANTS TO TAKE THE REQUIRED DECISIONS; FOREIGN EXCHANGE IS NOT A PROBLEM AS THE EPMG HAS MORE THAN IT CURRENTLY NEEDS FOR ADJUSTMENT PURPOSES AND ALSO AID FUNDS FROM EEC AND SOME OTHER DONORS ARE AVAILABLE FOR THIS TYPE OF INVESTMENT ACTIVITY.

7. EXTERNAL SECTOR
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ETHIOPIA IS MAINTAINING ITS EXTRAORDINARILY STRONG RESERVE POSITION. AS OF JUNE 30, NET FOREIGN EXCHANGE RESERVES PROBABLY STOOD AT ETH \$640-650 MILLION, UP APPROXIMATELY ETH \$30 MILLION SINCE THE FIRST OF THE YEAR. COFFEE, OF COURSE, HAS PLAYED A MAJOR ROLE IN EXPORT EARNINGS; IT NOW APPEARS THAT ETHIOPIA WILL EXPORT AROUND 70,000 TONS OF COFFEE 65,000 TONS HAVE ALREADY BEEN SHIPPED) THIS COFFEE YEAR (FROM OCTOBER 1975 TO SEPT 1976) AT AN AVERAGE PRICE OF ABOUT US \$2200 PER TON FOB DJIBOUTI OR A TOTAL OF US \$154 MILLION. EXPORTS OF OTHER IMPORTANT COMMODITIES SUCH AS OIL SEEDS (SESAME) AND PULSES ARE DOWN BUT EXPORTS OF LIVE ANIMALS AND HIDES AND SKINS HAVE INCREASED THEIR CONTRIBUTION TO EXPORT EARNINGS. PRICES FOR ETHIOPIA'S EXPORTS HAVE GENERALLY INCREASED DURING THIS PERIOD. IMPORTS OF CONSUMER GOODS, WHILE INCREASING, ARE NOT ADEQUATE TO RETARD INFLATION AND CAPITAL GOODS IMPORTS ARE DOWN OWING TO THE ABSENCE OF NEW INVESTMENT PROJECTS. THEREFORE DRAWDOWNS ON FOREIGN EXCHANGE RESERVES TO PAY FOR IMPORTS IS NOT AS GREAT AS THEY WILL BE IF AND WHEN CONFIDENCE IS RESTORED AND ECONOMIC ACTIVITY PICKS UP. OTHER ITEMS IN THE BALANCE OF PAYMENT ARE IN REASONABLY GOOD SHAPE EXCEPT EARNINGS FROM TOURISM WHICH CONTINUE TO BE VERY LOW.

8. COMMENT

CLEARLY THE MAJOR ECONOMIC PROBLEM FACED BY THE EPMG IS PROVISION OF FOOD FOR THE URBAN AREAS. THIS IS A SERIOUS MATTER AND THE RESPONSIBILITY FOR ITS OCCURRENCE CAN BE PLACED DIRECTLY ON THE POLICIES OF THE EPMG. RECENT STEPS TAKEN BY THE GOVT, INCLUDING THE EXECUTION OF "HOARDING" MERCHANTS MAY SOLVE THE IMMEDIATE SUPPLY PROBLEM; IT WILL NOT NECESSARILY INSURE A SOLUTION FOR THE REMAINING MONTHS BEFORE THE NEXT HARVEST. THE PRIVATE TRADE IS STILL THE BACKBONE OF THE MARKETING SYSTEM. BOTH THIS GROUP AND THE FARMERS MUST BE REASSURED ENOUGH SO THAT FOOD WILL BE MADE AVAILABLE FOR THE URBAN AREAS AND IT IS UP TO THE

EPMG TO PROVIDE THAT REASSURANCE.

ANOTHER MAJOR PROBLEM IS INFLATION BUT IT MAY NOT BE AS SERIOUS AS IT FIRST APPEARS. FIRST, SALARIES OF THE LOWEST PAID WORKERS AND THSE ON PENSIONS HAVE BEEN INCREASED OVER THE PAST YEAR OR SO AND HOUSE RENTS HAVE BEEN REDUCED. SECOND, WORKERS NO LONGER HAVE TO PAY THE DROUGHT SURTAX (IT EXPIRED IN MARCH) LIMITED OFFICIAL USE

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WHICH AMOUNTED TO 8.3 PERCENT OF A WORKER'S ANNUAL GROSS SALARY. THIRD, THE GOVT HAS GREATLY INCREASED ITS EXPENDITURES, A CONSIDERABLE PORTION OF WHICH HAS GONE TO THE LOWEST PAID GOVT WORKERS AND TO HIRE NEW EMPLOYEES FOR PUBLIC WORKS PROJECTS. FOURTH, GOVT POLICIES HAVE GREATLY INCREASED THE INCOME OF THE RURAL SECTOR. ALL OF THESE STEPS HAVE HELPED THE POORER GROUPS MEET INCREASED COSTS OF FOOD AND OTHER CONSUMABLES. IN FACT, THESE POLICIES HAVE CAUSED PRICES TO GO UP AS PEOPLE WHO COULD NOT PREVIOUSLY AFFORD TO BUY SOME OF THESE ITEMS (CLOTHING, SHOES, ETC.) CAN AFFORD TO DO SO NOW. IN ANY CASE IT ALSO SHOULD BE RECALLED THAT ETHIOPIA WAS INSULATED FROM INTERNATIONAL INFLATION FOR SEVERAL YEARS PARTLY BECAUSE THE EXTERNAL SECTOR CONSTITUTES ONLY A SMALL PROPORTION OF ETHIOPIA'S ECONOMY AND PARTLY BECAUSE OF GOVT POLICIES SUCH AS SUBSIDIZING THE COST OF PETROLEUM PRODUCTS AND ELECTRICITY AND KEEPING THE PRICE OF SUGAR BELOW INTERNATIONAL LEVELS. NOW ETHIOPIA MAY HAVE TO FACE UP TO A PAINFUL ADJUSTMENT PERIOD. THIS CAN PROBABLY BE DONE IF THE EPMG CONCENTRATES ON PROVIDING ENOUGH FOOD FOR THE URBAN AREAS AND ADJUSTS WAGES AND PROVIDES EMPLOYMENT FOR THE POOREST GROUPS. THIS WOULD BE IN KEEPING WITH A MAJOR EPMG POLICY GOAL OF IMPROVING THE LOT OF THE POORER URBAN GROUPS AND THE RURAL SECTOR IN GENERAL COMPARED TO THE MIDDLE AND UPPER CLASSES.

PERHAPS THE EPMG CAN BE MOST SEVERELY CRITICIZED FOR ITS LACK OF INVESTMENT (AND CONSEQUENTLY RELATIVELY HIGH LEVELS OF UNEMPLOYMENT) IN PRODUCTIVE ENTERPRISES AND HOUSING. AS IT ELIMINATED THE PRIVATE SECTOR FROM THESE ACTIVITES, IT MUST ASSUME THEM ITSELF. AMPLE FOREIGN EXCHANGE AND DONOR ASSISTANCE IS AVAILABLE FOR AT LEAST SOME INVESTMENTS OF THIS TYPE. LOCAL RESOURCES MAY BE A CONSTRAINT BUT THE EPMG SHOULD BE TAKING STEPS TO IMPROVE ITS ABILITY TO MOBILIZE MORE LOCAL RESOURCES THROUGH TAXATION, EARNINGS FROM STATE-OWNED ENTERPRISES, AND PERHAPS REALLOCATION FROM DEFENSE TO INVESTMENT EXPENDITURE. UNTIL THESE STEPS ARE TAKEN, PROSPECTS FOR GROWTH ARE NOT BRIGHT. IT IS NOT ENOUGH TO REDISTRIBUTE THE PIE; THE GOVT ALSO NEEDS TO INCREASE ITS SIZE.

HAVING POINTED OUT THESE DEFICIENCIES, IT IS ALSO IMPORTANT TO OBSERVE THAT IN GENERAL THE ECONOMY IS STILL CARRYING ON IN A MANNER THAT, AT LEAST SO FAR, HAS NOT CAUSED SERIOUS POLITICAL DISCONTENT. OVERT MANIFESTATIONS

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OF UNREST FOR ECONOMIC REASONS ARE RARE AND MOSTLY TAKE
THE FORM OF PRESS HARANGUES AGAINST "GREEDY" MERCHANTS
AND OTHER "ENEMIES" OF THE REVOLUTION. IF THE WEATHER
REMAINS FAVORABLE FOR AGRICULTURE, THE CURRENT RATE OF
URBAN ECONOMIC ACTIVITY IS MAINTAINED, AND IF THE GOVERN-
MENT OVERCOMES THE SPORADIC URBAN SHORTAGES OF CEREALS,
ANTI-GOVERNMENT ACTIONS BASED ON ECONOMIC GRIEVANCES
ARE UNLIKELY.
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